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C O N F I D E N T I A L SECTION 01 OF 02 VIENTIANE 000646

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DEPARTMENT FOR EAP/MLS, INR

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SUBJECT: LAO PRESIDENT PAYS HOMAGE TO CHINA

REF: VIENTIANE 565

Classified By: Ambassador Patricia M. Haslach, reason 1.4 (b) and (d).

Summary

1. (C) During his June 27-July 2 visit to China, Lao President Choummaly met with the senior Chinese leadership and signed an agreement for a low-interest loan for 280 million Yuan (about \$35 million) that we understand will be used in part to fund the purchase of construction equipment. The Chinese played welcoming hosts to the President and his entourage, with the two sides signing a joint communique stressing China's commitment to assist Laos in its economic growth and to improve ties across the board. In contrast to the uncritical Chinese, the Vietnamese may be losing patience with the GoL's lack of commitment to reform; during Choummaly's Vietnam call last month (reftel), the Vietnamese exerted pressure on his government to tackle corruption or risk serious problems down the road. If the fruits of these two visits are a guide, the Lao relationship is drifting toward China, away from traditional patron Vietnam. End summary.

A "friendship visit"

2. (C) President Choummaly's China trip followed almost immediately on the heels of his June 19-22 courtesy call to Vietnam; together the two visits conveyed a clear signal that Laos' recent leadership changes would not affect the Communist Party's relations with long-time ally Vietnam and with its new development partner China. Officially making the trip at the invitation of Chinese President Hu Jintao, Choummaly traveled with a large retinue, representing the senior ranks of the government's foreign and economic ministries, including the Deputy Prime Minister and Minister of Foreign Affairs Thongloun Sisoulith. During their six-day stay, the President and his entourage met with the National People's Congress Chairman Wu Bangguo, Premier Wen Jiabao, and Vice President Zeng Qinghong, and toured sites in Beijing.

3. (C) At the close of the visit the two presidents issued a joint communique, expressing their intent to cooperate closely across a range of areas and making mention of a new plate of assistance the Chinese government would provide Laos. The largest item on the plate would be China's provision of a low-interest loan to the GoL. MFA contacts told us the loan would be for 280 million Yuan (about \$35 million); the purpose of the loan had not yet been decided. We have heard from other sources, however, that part of the

loan would be set aside to fund the purchase of Chinese-made road-building and mining equipment by companies operating in Laos, and was therefore money that would directly benefit Chinese manufactures.

¶4. (C) In addition to the loan, President Hu agreed to provide agricultural equipment for the Lao farming sector, and increased training for Lao officials. The two leaders also discussed in vague terms other areas of possible assistance, including Chinese help to fund construction of a long-delayed railroad link from the Friendship Bridge on the border with Thailand to the Lao shipping port of Tha Nalaeng.

The Chinese President promised to increase activity in economic endeavors where the Chinese have been most active in recent years, such as the mining, hydropower, agriculture and tourism sectors. In their joint communique, the two sides agreed to work closely together on border issues, expand border trade, and generally increase cooperation in defense, education and public security.

No substance

¶5. (C) The Director-General of MFA's Asia-Pacific Department, briefing us on the visit, assured us there were "no secrets" to Choummaly's trip, and billed it as a "courtesy call" as part of the new President's round of calls subsequent to taking office. With the exception of the Chinese loan and a few other small aid items, he told us, the two leaders did not broach any new issues. The content of the joint communique reflected a visit that was more concerned with emphasizing the status quo than with breaking new ground. Although President Hu stressed the need to encourage Chinese trade and investment in Laos and in increasing exchanges and

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training opportunities at all levels, the DG told us there was no detailed discussion of how to arrive at these goals.

Vietnam gets serious with the Lao

¶6. (C) Choummaly's China visit may have been more pleasant than his trip to Vietnam the previous week. Embassy's NAS Director learned from the UNODC Representative in Vientiane last week that UNODC had received reports of mass arrests, up to 300 individuals, as part of a government crackdown on corruption. While the majority of those detained are reportedly village chiefs, the dragnet also purportedly included the Customs Director at the Thai-Lao Friendship Bridge, a particularly prestigious (and lucrative) position. According to UNODC, this crackdown came at the behest of the Government of Vietnam, which raised the issue during Choummaly's visit. Reportedly, the Vietnamese admonished the GoL for its poor performance in fighting corruption, and pointed to Vietnam's relative success in this area during the past three years. The Lao counter-corruption campaign, if it is in fact occurring, may be a hasty attempt by the GoL to placate the Vietnamese. Possibly as a follow-on to the Choummaly trip there, FM Thongloun will return to Vietnam, and travel on to Cambodia, later this month.

Comment

¶7. (C) The Chinese made a point of finding a deliverable for Choummaly -- their low-interest loan -- while the Vietnamese appear to have been more interested in rousing the Lao to deal with their serious internal problems. The Vietnamese see corruption for what it is, a disease eating away at the vitals of their regime, and may be worried about the similar implications for corruption in the country that guards its western flank. Until very recently, the Lao had failed to grasp the import of the message. That may be changing, possibly at the behest of the Vietnamese. We understand from government contacts that the Vietnamese were in large part responsible for getting the Lao to reestablish the office of Party Secretariat at the 8th Party Congress in March, as a tool for dealing with internal corruption. This recent round

of arrests, although unconfirmed, is another signal that the Lao may be turning around on corruption. The new Prime Minister, Bouasone, has already made anti-corruption a mantra of his administration.

18. (C) We have never had the sense that the Chinese are so concerned about Laos' internal problems. "Non-interference" is more than a slogan to the Chinese, who are happy to leave the Lao to their own internal affairs. The Chinese are much more concerned with Laos' support on external affairs, convincing them to toe the line on several issues dear to China's heart. Laos' foreign policy more and more tracks with that of China, such as on the one-China policy. The Lao are beginning to echo the Chinese even in ASEAN. A contact in the Singapore Embassy said that Lao Deputy FM Bounkeut has recently spoken up in ASEAN meetings about the proposed East Asia Community, arguing China's position and taking issue with that of Vietnam. Those subtle differences hint that the days of Laos-Vietnam as close as "lips and teeth" may be ending. End comment.

HASLACH